

Strategic Objective Close-Out Report

USAID/Russia

Name: "Accelerated Development and Growth of Private Enterprises"

Number: 118-130

SO Approval date: 1999

SO Period: FY 1999 – FY 2002

Geographic Area: Russian Federation

Total Cost: Freedom Support Act – \$39,926,000

1. Principal Implementing Partners:

FINCA
Counterpart International
UAA/ARC
Junior Achievement Russia
Academy of Management and Market (Morozov Project)
IRIS
CDC/BCC
PC, GTN, USEA
CCI/RISE
Carana
ASWG/DCED
ACDI/VOCA

2. Summary of Overall Impact at SO and IR level

Performance over the life of this SO met expectations.

IR 1.3.1 Policies, legislation and regulations conducive to broad based competition and private sector growth adopted

The Government of Russia (GOR) has enacted laws on leasing, consumer cooperatives and deregulation, and exemption of interest payments on loans from the value-added tax (VAT). The law to liberalize leasing has expanded access by small businesses to equipment leasing, which has been identified as a constraint to their growth. A VAT tax exemption for loan interest gave microfinance institutions the same tax advantages as banks and freed additional resources for small entrepreneurs. Overall, the target for this IR was met.

IR 1.3.2 Successful models of private ownership and modern management widely replicated
Number of firms served.

During FY 2001 business-support institutions reached more than 8,000 clients and trained 77,000 people. Of BSI clients, over half reported a significant increase in sales within six months of receiving assistance. Overall, the target for this IR was met.

IR 1.3.2.1 Workable models of new and restructured firms to compete in a market economy are created.
Modern management practices are adopted by private sector firms

SMEs were trained in and adhering to international accounting standards (IAS) and new management practices. This IR met target.

IR 1.3.3 Sustainable network of business support institutions rendering services to entrepreneurs and enterprises.

New management skills acquired through USAID-funded training reduced operating costs of eight USAID-supported business support institutions by up to eight percent. These institutions also introduced new services, which increased their client base by an average of 36 percent. This IR met its target.

3. Summary of Activities and Success Stories

The small and medium-size enterprise sector (SME) has grown to account for an estimated 12 percent of Russia's GDP, and the total number of these businesses is estimated at more than three million. USAID can claim credit for some part of this growth, through its business development and investments activities, whose direct beneficiaries are Russian SMEs. Through better policies, greater access to credit and expanded services to improve management skills, the climate for small business is steadily improving.

USAID's programs have made significant contributions to policy reforms that are lowering administrative barriers: the Government of Russia (GOR) has enacted laws, developed with USAID's assistance, on leasing, consumer cooperatives and deregulation, exemption of interest payments on loans from the value-added tax, giving microfinance institutions the same tax advantages as banks and freeing additional resources for small entrepreneurs. USAID's technical assistance helped formulate a draft law on credit cooperatives for businesses.

The USAID-funded Small Business Working Group (SBWG) had several successes. A law to liberalize leasing has expanded access by small businesses to equipment leasing, which has been identified as a constraint to their growth in the present environment. USAID will support this expansion through the use of Development Credit Authority to mitigate leasing companies' risks. Because of the SBWG's efforts, the GOR enacted a law allocating \$6.7 million to support of SME development. The USAID-supported Academy for Management and the Market was written into this law to help with training, in recognition of its success in establishing a 67-member training network throughout Russia.

Recognizing commercial banks' unwillingness to lend to small businesses, USAID has helped create a nationwide network of non-bank financial institutions. In FY 2001, growth in this sector exploded: the cumulative number of USAID-supported microfinance loans doubled from 13,000 to 32,000 and reached a value of \$30 million. About 56 percent of these loans, which averaged \$1,000 to \$1,500, went to women entrepreneurs.

The technical assistance provided by USAID has helped to establish a national three-tier system of rural credit cooperatives. Originally, the system was fueled only by grass-roots initiative, but with support from foreign donors, notably from USDA for initial seed capital (\$6 million) and USAID through the Mobilizing Agricultural Credit (MAC) program, the system has become both operationally and financially sustainable. The Rural Credit Cooperative Development Fund (RCCDF) set up under the MAC program has become known to many more international investors, donors, Russian partners, and commercial banks. It has made cumulative loans since 2000 valued at \$38 million. Its current loan portfolio of \$8.5 million is loaned out to credit cooperatives accredited with the Russian-American Loan Program. Rural credit cooperatives, using savings mobilized primarily from rural populations, loaned out 2 billion rubles (\$70 million) in one year. These levels are significant when one recalls that in 1995 there were no rural credit cooperatives; RCCDF reports that today there are over 800 rural credit cooperatives. The Fund continues to be involved in: improvement of credit cooperative legislation; training and proficiency improvement of rural credit cooperative specialists; development and introduction of financial standards and unified accounting system in credit cooperatives; development and introduction of a management information system and monitoring of rural credit cooperatives, and many other activities. It is gaining political weight, and currently is involved in implementing President Putin's initiative in the farm sector.

New management skills acquired through USAID-funded training reduced operating costs of eight USAID-supported business support institutions by up to eight percent. These institutions also introduced new services, which increased their client base by an average of 36 percent. Of BSI clients, over half reported a significant increase in sales within six months of receiving assistance. During FY 2001 business support institutions reached more than 8,000 clients and trained 77,000 people. To groom

young entrepreneurs, Junior Achievement Russia now reaches over 6,000 Russian schools and over the course of a decade has trained over 1.7 million boys and girls in extracurricular programs.

To promote investment, USAID introduced training in international accounting standards (IAS) for businesses in selected regions. Six professional firms that received such training now offer fee-based transformations as part of their services, and Tomsk University offers a course on international accounting standards, the first in Siberia. Four accounting institutes in Samara started courses after their instructors were trained by USAID. In Regional Initiative sites of Tomsk and Samara, USAID brought about a private-public dialogue to identify investment barriers in regions and find ways to improve the business climate.

The performance of some activities has led us to refocus in several areas. Our success in microfinance led to a new activity to develop a national organization that will accelerate the growth and maturation of Russian microfinance lending institutions. With this activity online, we will phase out over several years activities providing capital for microfinance lending. Our success in federal policy advocacy, as well as the need to deepen the reform effort at the regional level, led us to strengthen business associations in eight pilot regions to advocate for policy change. To hasten the adoption of IAS, which the GOR has mandated for all businesses by 2010, we will work with universities and institutes to incorporate IAS courses into the curriculum.

4. Prospects for the Future

Challenges

SME growth still faces large challenges. Regional business associations will play a crucial role in sustaining the momentum for policy change by broadening participation and building public-private alliance partnerships. Another challenge is to ensure that both men and women have access to credit and other business services. For example, while women account for a high percentage of micro-loans, their numbers appear to decline precipitously as the average loan size increases. Finally, individuals in the Russian Far East lack skills and adequate infrastructure to accomplish economic growth. Business support institutions need to provide management training and services in strategic locations.

5. Lessons learned for application to other SOs

Over the life of this SO there have been two major developments: 1) The Russian SME community has significantly improved its understanding of management skills and systems, access to capital and its newfound advocacy role. 2) The Russian policy, legislative and regulatory environment has improved for SME development. In dosing this SO, the following conclusions can be drawn: 1) The Russian SME sector has graduated from the need for basic support to developing entrepreneurial skills. Services targeted at emerging SMEs and individuals are now provided by established Russian Business Support Institutions (BSIs), and there is no need for further USAID intervention into this area. For the most part, Russian BSIs are well-developed self-sustainable institutions capable of delivering quality services. There may be need for assisting a limited number of them to expand their scope and improve their interaction with public sector. 2) The Russian legislative and regulatory environment has significantly improved, but there are still many obstacles facing small- and medium-sized entrepreneurs. Examples include administrative barriers which still constrain SMEs, and issues with SME taxation and finance, especially access to long-term capital. Corruption is very high and uncontrolled. There is a need for technical assistance to the Russian governmental organizations, banks, and non-bank finance institutions.

A follow-on objective, SO 1.31 *Small and Medium-size Enterprise Sector Strengthened and Expanded*, was begun in FY 2002 and contained many of the same activities from SO 1.30 *Accelerated Development and Growth of Private Enterprises*.

6. Summary of indicators and their usefulness for performance management

The indicator for this SO, measured by the absolute number of SMEs registered in Russia proved effective in measuring performance and showed our progress towards achieving our objective.

IR 1.3.2 Successful models of private ownership and modern management widely replicated
Number of jobs created/sustained

This indicator measured the number of jobs created and sustained during the reporting period. This indicator only measured job statistics from SO1.3 contractors and therefore was not a complete picture of the economic sector, yet nevertheless helped to measure the impact of the USAID project.

IR 1.3.2.1 Workable models of new and restructured firms to compete in a market economy are created
Modern management practices are adopted by private sector firms

This indicator was a measure of the cumulative dollar amount of external financing and equity financing obtained by client firms of USAID-financed Business Support Institutions and was a useful indicator to measure the viability of new and restructured firms.

IR 1.3.4 Successful models of private ownership and modern management widely replicated.

This indicator measured the cumulative number of loans made during the reporting period. It was used to track the success of our program in reaching small and micro entrepreneurs.

7. Appendix

Results Report and Resource Request (R4) 1999-2001
Annual Report 2002-2003

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